

Confidential Presentation to:

Finance and Risk Committee

Additional Materials

January 29, 2008

LEHMAN BROTHERS

LBEX-AM 067269

CONFIDENTIAL TREATMENT REQUESTED BY
LEHMAN BROTHERS HOLDINGS, INC.

Overview

- ◆ The turmoil in the credit markets that we discussed in the September Finance and Risk Committee has continued, with significant volatility in spreads and tight liquidity conditions
- ◆ This has presented challenges and opportunities in the dislocated markets
- ◆ We have been able to maintain compliance with our conservative funding policies, and the reported liquidity at the end of the year was at a record level. We have been able to grow our long term sources of capital through capital markets structures, and by increasing the size of our internal banks
- ◆ The balance sheet has continued to grow with our equity base. Leverage increased from 15.4x at the mid year to 16.1x. This growth has been across a broad number of businesses. The severe slowdown in securitization and loan syndication activity has, however, meant that our mortgage and loan balance sheets have grown as a proportion of the overall Firm's balance sheet
- ◆ Balance sheet growth in December was largely in highly liquid asset classes for which we were able to source repo financing
- ◆ Financing of liquid assets in repo markets has remained strong. We have been able to grow repo financing to meet the balance sheet and leverage increases, without reducing the term of that financing
- ◆ Price transparency in certain asset classes has worsened resulting in an increase in Level 3 assets. Most of the increase from mid year has been in mortgage wholeloans (residential and commercial)
- ◆ Risk appetite increased through Q4, but over the last few weeks has reduced and is now around \$3.5 billion (compared to \$3.3 billion at end of Q3)

Lehman Net Assets and Leverage

The balance sheet has continued to grow across almost all asset classes and businesses. Leverage has also increased, although at a lesser rate than our peer group

Lehman Net Assets (\$ millions)

\$ millions	FY 2005		FY 2006		Q1 2007	Q2 2007	Q3 2007	FY 2007	
	\$	%	\$	%	\$	\$	\$	\$	%
Mortgages, mortgage-backed and real estate	62,216		67,134		81,946	95,524	108,051	111,023	
<i>Commercial</i>	22,195	10%	33,548	12%	39,561	47,701	56,962	63,211	17%
<i>Residential and Other</i>	40,021	19%	33,586	12%	42,385	47,823	51,089	47,812	13%
Corporate Debt	30,182		43,764		48,807	55,298	52,151	54,098	
<i>High Yield</i>	5,987	3%	15,929	6%	18,449	20,519	27,949	32,732	9%
<i>Investment Grade</i>	24,195	11%	27,835	10%	30,358	34,779	24,202	21,366	6%
Corporate Equities	33,426	16%	43,087	16%	52,471	58,552	64,283	58,521	16%
Government and Agencies	30,079	14%	47,293	18%	47,764	44,705	37,108	40,892	11%
Derivatives and other contracts	18,045	9%	22,696	8%	22,586	28,335	35,711	44,595	12%
CDs and Money Markets	3,490	2%	2,622	1%	3,064	3,270	4,993	4,000	1%
Other Assets	33,986	16%	42,341	16%	44,160	51,983	54,806	59,830	16%
Net Assets	211,424	100%	268,937	100%	300,798	337,667	357,103	372,959	100%
Equity (Including Preferreds & Hybrids)	15,564		18,567		19,485	21,880	22,164	23,112	
Net Leverage	13.6x		14.5x		15.4x	15.4x	16.1x	16.1x	

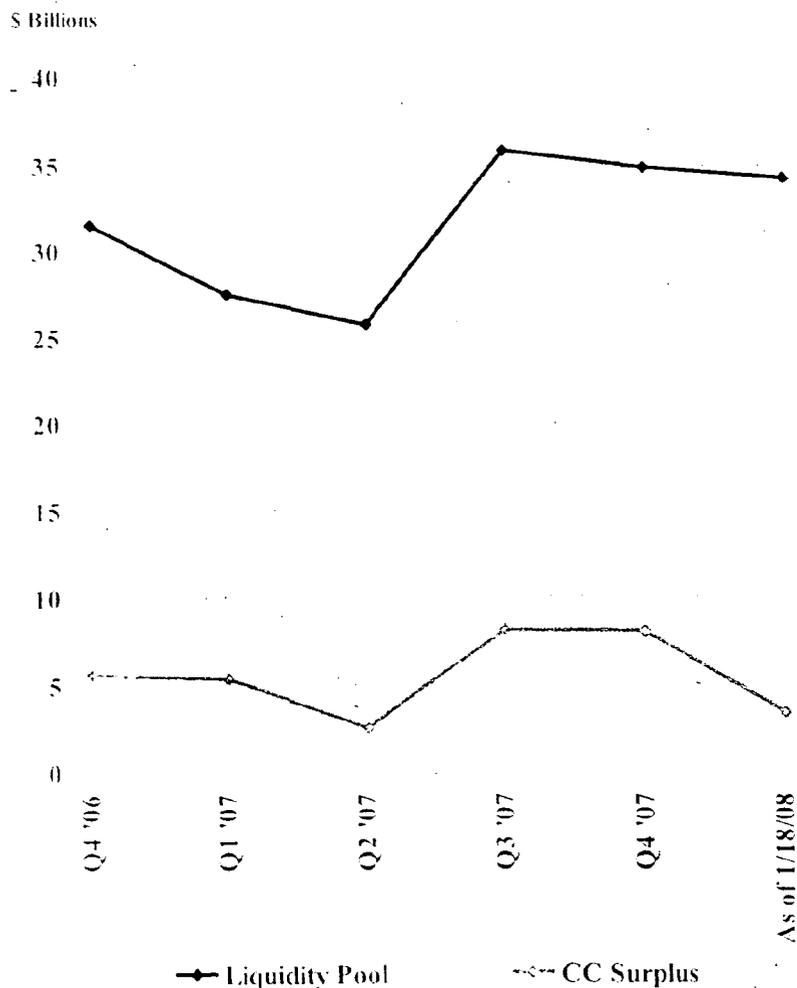
Leverage Trend

	FY 2005	Q1 2006	Q2 2006	Q3 2006	FY 2006	Q1 2007	Q2 2007	Q3 2007	FY 2007
Lehman:									
Net Leverage	13.6x	13.5x	13.8x	13.5x	14.5x	15.4x	15.4x	16.1x	16.1x
Gross Leverage	24.4x	25.1x	25.4x	25.8x	26.2x	28.1x	28.7x	30.3x	30.7x
Peer Average:									
Net Leverage	14.0x	14.3x	14.6x	14.0x	14.5x	15.3x	15.8x	16.9x	N/A

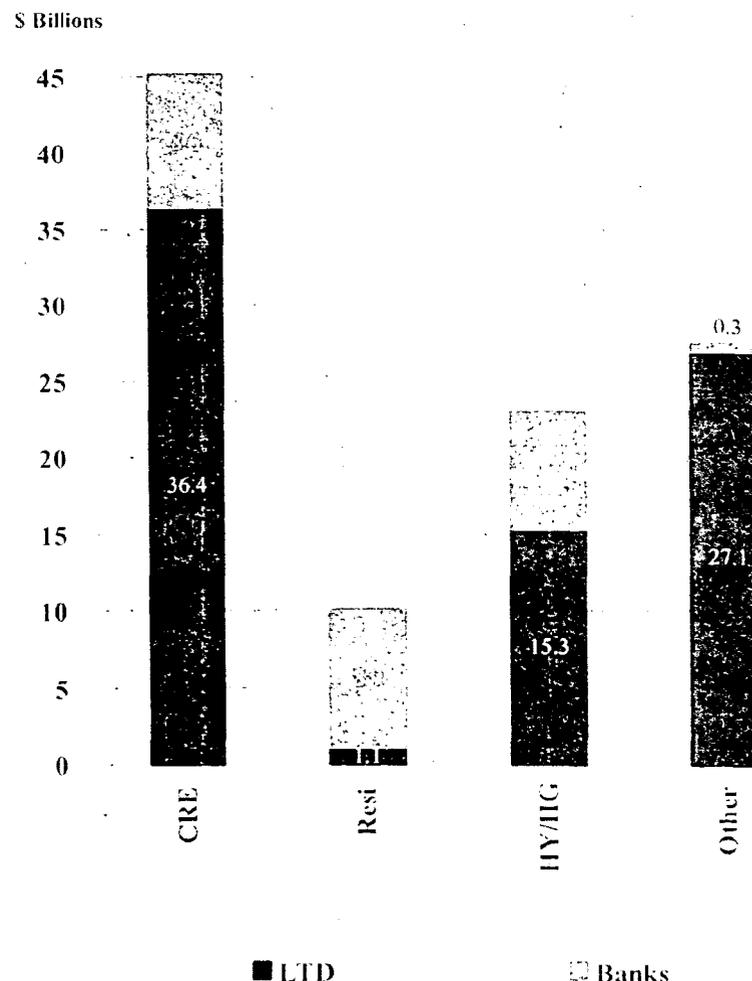
Liquidity Pool and Illiquid Asset Funding

Our liquidity position has remained strong with record levels of liquidity at the year end. The funding of illiquid assets is entirely with long term reliable sources

Liquidity Pool and Cash Capital Surplus



Illiquid Asset Funding Composition as of FY 2007

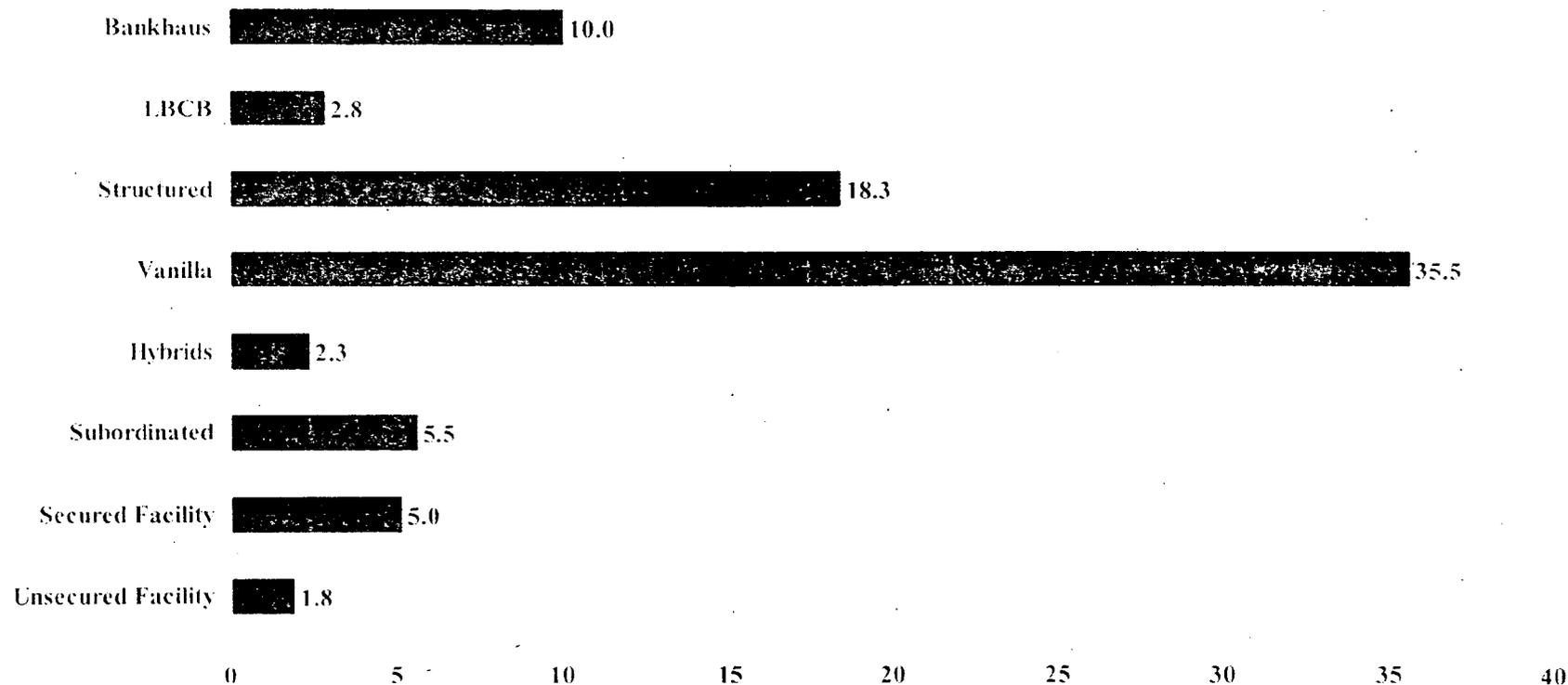


FY 2007 Sources of Liquidity

Through 2007 we were able to grow our long term sources of liquidity through both the capital markets, and internal and external banks

FY 2007 Change in Source of Liquidity

\$ Billions

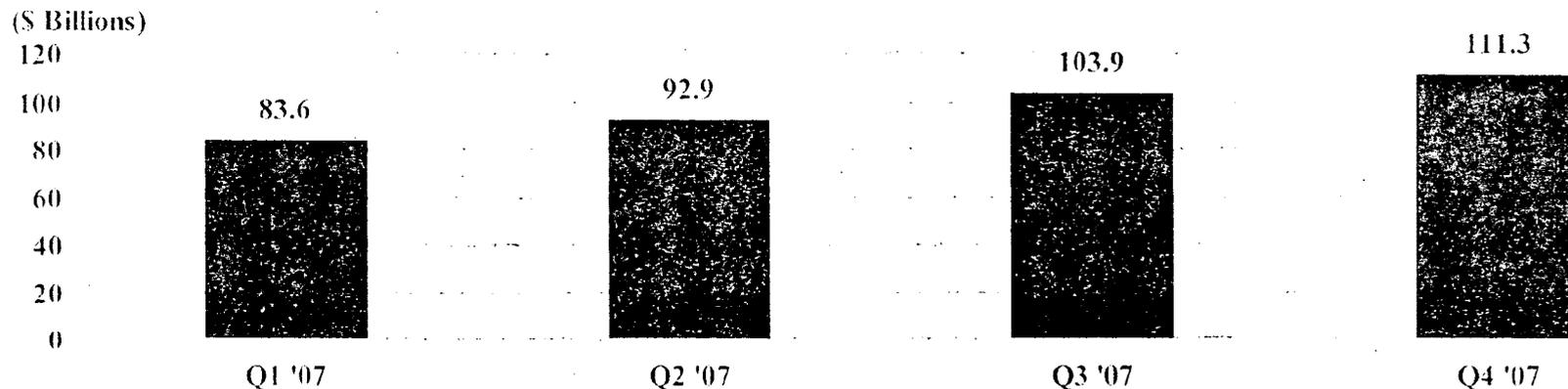


1. LBB decreased its source by \$0.7 billion in FY 2007

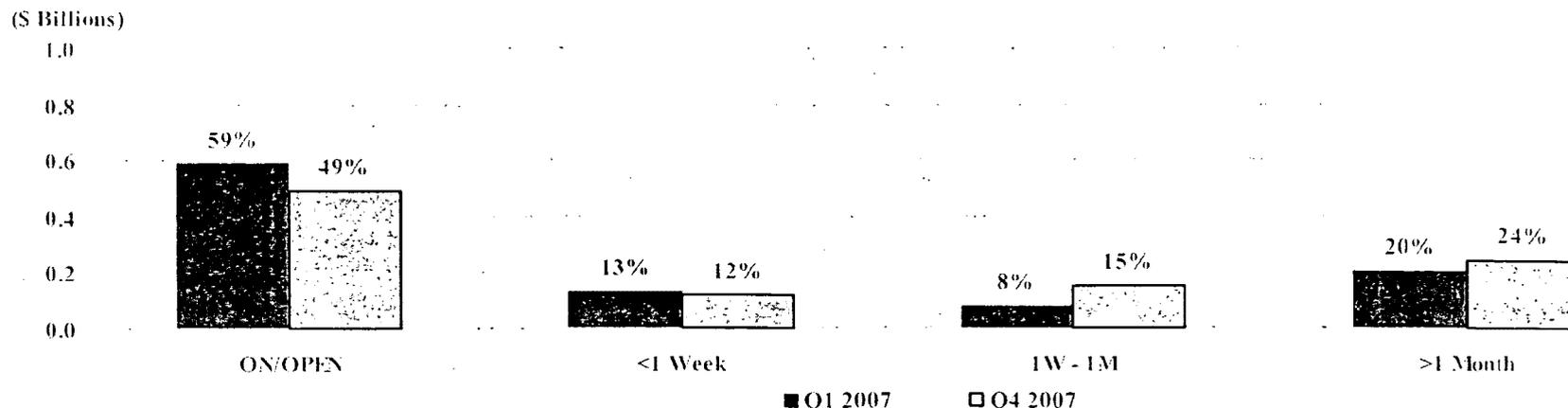
Secured Funding Trend

- ◆ The \$28bn increase in funding volumes between Q1 and Q4 2007 was mainly attributed to Investment Grade securities
- ◆ The tenor profile has shifted from Overnight and Open to greater than 1 Week

Secured Funding Volumes (Q1 to Q4 2007)



Secured Funding Tenor Profile (Q1 versus Q4 2007)



1. Based on global cash repo trades and Government Upgrade Collateral Swaps, excluding products traded special, Governments, Treasuries, Government/MBS Agencies, Sovereigns, and Commercial Wholeloans.

Lehman Fair Value Assets

Level 3 assets have grown as a proportion of the inventory of the Firm. This has been primarily in mortgages, both residential and commercial, where liquidity and price transparency have reduced significantly

Lehman Fair Value Assets (\$millions)

Smillions	Q2 2007				Q3 2007				Q4 2007			
	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total	Level I	Level II	Level III	Total
Mortgages and asset-backed securities	24	69,678	9,932	79,634	222	65,039	22,746	88,007	240	64,662	24,204	89,106
Government and agencies	41,001	3,704	-	44,705	24,092	13,016	-	37,108	25,393	15,499	-	40,892
Corporate debt and other	2,785	47,008	5,505	55,298	946	48,171	3,034	52,151	324	50,692	3,082	54,098
Corporate equities	43,931	10,499	4,122	58,552	42,973	16,255	5,055	64,283	39,573	10,602	8,346	58,521
Commercial paper/other money market	3,270	-	-	3,270	4,993	-	-	4,993	4,000	-	-	4,000
Non Derivative Assets	91,011	130,889	19,559	241,459	73,226	142,481	30,835	246,542	69,530	141,455	35,632	246,617
Derivative assets	3,801	22,076	2,458	28,335	5,928	25,936	3,847	35,711	3,281	35,678	5,636	44,595
Total Fair Value Inventory	94,812	152,965	22,017	269,794	79,154	168,417	34,682	282,253	72,811	177,133	41,268	291,212
% of Fair Value Inventory	35%	57%	8%	100%	28%	60%	12%	100%	25%	61%	14%	100%
% of Net Assets	28%	45%	7%		22%	47%	10%		20%	47%	11%	

Lehman Securitization Activity

Securitization Volume (\$millions)

	Total Securitizations Volume			
	US	Europe	Asia	Total
Q1	23,669	1,376	366	25,410
Q2	38,974	3,142	650	42,766
Q3	30,290	5,752	550	36,592
Q4	12,187	7,792	1,118	21,097
FY 2007	105,120	18,061	2,684	125,865

Residential Mortgage Securitizations

	US	Europe	Asia	Total
Q1	21,206	1,376	-	22,581
Q2	36,532	1,151	-	37,683
Q3	22,836	3,276	-	26,112
Q4	10,487	2,920	270	13,677
FY 2007	91,061	8,722	270	100,054

Commercial Mortgage Securitizations

	US	Europe	Asia	Total
Q1	2,463	-	366	2,829
Q2	2,442	1,991	650	5,083
Q3	7,454	2,476	550	10,480
Q4 ¹	1,700	4,872	848	7,420
FY 2007	14,059	9,339	2,414	25,812

Retained Interests (\$millions)

	Total Retained Interests Balance		
	Investment Grade	Non-Investment	Total
Q1	6,143	1,451	7,594
Q2	9,675	1,759	11,434
Q3	12,441	1,787	14,228
Q4	14,898	1,950	16,848
FY 2007	14,898	1,950	16,848

Residential Mortgage Retained Interests

	Investment		
	Grade	Non-Investment	Total
Q1	5,435	1,420	6,855
Q2	9,088	1,744	10,832
Q3	9,223	1,709	10,932
Q4 ¹	7,135	1,596	8,731
FY 2007	7,135	1,596	8,731

Commercial Mortgage Retained Interests

	Investment		
	Grade	Non-Investment	Total
Q1	708	31	739
Q2	587	14	602
Q3	3,218	78	3,296
Q4 ²	7,763	354	8,117
FY 2007	7,763	354	8,117

1. Residential Securitization Residuals Certificates (First-Loss Piece of Securitizations) account for only \$927 million of Retained Interests in Q4 2007
 2. Commercial Mortgages include securitizations that were not actively marketed in Q4 2007

Lehman Retained Interests

The majority of retained interest at the end 2007 were either Agency-backed or AAA quality

Q4 2007 Residential Retained Interests (\$millions)

Security Ratings	Americas	Europe	Asia	Total
AGENCY	2,453			2,453
AAA	2,366			2,366
AA	1,047	496		1,543
A	519			519
BBB	253			253
Below BBB- Non-Investment Grade	1,279	317		1,596
Total	7,918	812	0	8,731

Q4 2007 Commercial Retained Interests (\$millions)

Security Ratings	Americas	Europe	Asia	Total
AAA	2,181	3,660	5	5,846
AA	168	382		550
A	286	347		633
BBB	397	337		734
Below BBB- Non-Investment Grade	104	207	43	354
Total	3,136	4,933	48	8,117

1. Rating of European Residential Investment Grade Retained Interests are assumed AA for presentation

Lehman Peer Comparison

FY 2007 Lehman versus Peers (\$ millions)

	<u>LEH</u>	<u>GS</u>	<u>MS</u>	<u>BSC</u>	<u>MER</u>
Net Revenues					
FY 2006	17,583	37,665	29,839	9,227	33,781
FY 2007	19,257	45,987	28,026	5,945	11,250
Y-to-Y growth (decline)	9.5%	22.1%	(6.1%)	(35.6%)	(66.7%)
LEH Rank 2007	2				
Net Income					
FY 2006	4,007	9,537	7,472	2,054	7,499
FY 2007	4,192	11,599	3,209	233	(7,777)
Y-to-Y growth (decline)	4.6%	21.6%	(57.1%)	(88.7%)	(203.7%)
LEH Rank 2007	2				
Net Margin					
FY 2006	22.8%	25.3%	25.0%	22.3%	22.2%
FY 2007	21.8%	25.2%	11.5%	3.9%	0.0%
LEH Rank 2007	2				
ROE					
FY 2006	23.4%	32.8%	23.5%	19.1%	21.3%
FY 2007	20.8%	32.7%	8.9%	1.8%	NM
LEH Rank 2007	2				

Lehman Ratings

Lehman Ratings

<u>Moody's Investor Service</u>	<u>LBHI</u>
Short-term	P-1
Long-term (Senior)	A1
Long-term (Subordinated)	A2

<u>Standard & Poor's</u>	
Short-term	A-1
Long-term (Senior)	A+
Long-term (Subordinated)	A

<u>Fitch Ratings</u>	
Short-term	F-1+
Long-term (Senior)	AA-
Long-term (Subordinated)	A+

<u>Dominion Bond Rating Service</u>	
Short-term	R-1 (Middle)
Long-term (Senior)	AA (low)
Long-term (Subordinated)	A (high)

Recent Rating Actions

(Listed Chronologically)

Moody's Investor Service

September 2007 - Ratings Affirmed
June 2006 - Outlook Change to Positive
October 2003 - Ratings Upgrade

Standard & Poor's

November 2007 - Ratings Affirmed
August 2007 - Ratings Affirmed
October 2005 - Ratings Upgrade

Fitch Ratings

August 2007 - Ratings Affirmed
June 2007 - Ratings Upgrade
July 2005 - Ratings Upgrade

Dominion Bond Rating Service

December 2007 - Ratings Upgrade
September 2007 - Ratings Affirmed
September 2006 - Outlook Change to Positive

1. As of January 25, 2008

Monoline Summary

We face exposure to monolines in four ways:

Type of Risk	Definition	Net Exposure
Market Risk	CDS, Bonds, Money Market Preferreds, and other instruments issued by monolines	Effectively small long exposure with value in default assuming 50% recovery (VoD 50%) ~ (\$50 million)
Counterparty Risk (Direct exposure)	We have multiple OTC trades with monolines as counterparties. The market value of these trades is driven by reference credits	Long exposure with VoD (50%) ~ (\$265 million)
Credit Enhancement (Indirect exposure)	We hold securities, insured against default by monolines: munis, CDO wrapping, etc.	Long exposure with VoD (50%) ~ (\$235 million)
Surety Bond	No P/L with subsidiaries, but will affect their capital structure	Zero exposure. Nominal capital of \$225million Replacement capital needed for \$100 million

Note. All data as of January 16, 2008

Diversified Monoline Exposure

Exposure is well diversified across seven monolines with the largest exposure measured by default value assuming 50% recovery (VoD 50%) slightly less than \$150 million, including counterparty risk and credit enhancement

Monoline Exposures, VoD 50% (\$ million)

Monoline	Market Risk	Counterparty Risk	Credit Enhancement	Total ¹
AMBAC	(51)	(19)	(77)	(147)
MBIA	(79)	(3)	(55)	(137)
Assured	-	(71)	(38)	(109)
FGIC	(16)	(11)	(31)	(59)
XL	95	(135)	(14)	(54)
FSA	(4)	(6)	(21)	(31)
ACA	0	(20)	0	(20)
Total	(55)	(265)	(236)	(556)

¹ Numbers may not add due to rounding